

ICSE Board Class 10 2026 Economics Question Paper with Solutions

Time Allowed :2 Hours

Maximum Marks :80

Total questions :11

General Instructions

Read the following instructions very carefully and strictly follow them:

1. The paper is divided into Section A and Section B.
2. Section A includes objective-type questions.
3. All questions in Section A are compulsory.
4. Section B includes short answer, and long answer type questions.
5. Answers must be written legibly within the word limit.
6. Use of unfair means or electronic devices is prohibited.
7. Follow the correct format and instructions for each section.

Section - A

1(i). When ABC Electronics implemented division of labour, the workers became more productive. This happened due to -----

- (A) Rotation
- (B) Motivation
- (C) Mechanisation
- (D) Specialisation

Correct Answer: (D) Specialisation

Solution:

Step 1: Understanding the concept.

The division of labour allows workers to focus on specific tasks, thus increasing their efficiency and productivity. Specialisation is the process where workers become highly

skilled in a specific task, leading to better performance and output.

Step 2: Analyzing the options.

- **(A) Rotation:** Incorrect. Rotation of tasks doesn't necessarily increase productivity, as workers may lack expertise in each task.
- **(B) Motivation:** Incorrect. While motivation is important, it is not the primary factor here.
- **(C) Mechanisation:** Incorrect. Mechanisation involves the use of machines, but it is not the focus of this question.
- **(D) Specialisation:** Correct. Specialisation of tasks leads to higher productivity as workers become more skilled in their specific roles.

Step 3: Conclusion.

The correct answer is (D) Specialisation.

Final Answer: (D) Specialisation.

Quick Tip

Specialisation leads to greater efficiency as workers focus on specific tasks, improving their skill level and productivity.

(ii) What will be the elasticity of demand for the given commodity as shown in the picture?

- (A) Elastic
- (B) Unit elastic
- (C) Inelastic
- (D) Perfectly elastic

Correct Answer: (C) Inelastic

Solution:

Step 1: Understanding the elasticity of demand.

The image refers to the elasticity of demand for salt, which is typically inelastic. This means that even with a change in price, the quantity demanded doesn't significantly change because salt is a necessity with few substitutes.

Step 2: Analyzing the options.

- **(A) Elastic:** Incorrect. Salt is not elastic; its demand does not change much with price fluctuations.
- **(B) Unit elastic:** Incorrect. Unit elasticity would mean that the percentage change in quantity demanded is exactly equal to the percentage change in price, which doesn't apply here.
- **(C) Inelastic:** Correct. The demand for salt is inelastic, as it is a necessity with no close substitutes.
- **(D) Perfectly elastic:** Incorrect. Perfectly elastic demand would imply that even the smallest price change would result in an infinite change in quantity demanded, which doesn't apply to salt.

Step 3: Conclusion.

The correct answer is (C) Inelastic.

Final Answer: (C) Inelastic.

Quick Tip

Inelastic goods, like salt, have a low price elasticity of demand because they are necessities and have few substitutes.

(iii). When income increases, the demand for type of goods will increase:

- (A) Inferior
- (B) Giffen
- (C) Normal

(D) Homogeneous Necessities

Correct Answer: (C) Normal

Solution:

Step 1: Understanding the types of goods.

- **Inferior goods:** These are goods for which demand decreases as income increases. They are typically lower-quality goods. - **Giffen goods:** These are a type of inferior goods that paradoxically see an increase in demand as prices rise due to income and substitution effects. - **Normal goods:** These are goods for which demand increases as income increases, which is the case for most products. - **Homogeneous necessities:** These are essential goods, but their demand doesn't necessarily increase significantly with higher income.

Step 2: Conclusion.

Therefore, the correct answer is (C) Normal, as normal goods experience an increase in demand when income rises.

Final Answer: Normal.

Quick Tip

Normal goods are those that see an increase in demand when consumer incomes rise, which applies to most goods in the economy.

(iv). The following supply curve shifts from S1 to S2. It may be due to:

- (A) Increase in tax
- (B) Improvements of technology
- (C) Rise in the price of inputs
- (D) Increase in the number of producers

Correct Answer: (B) Improvements of technology

Solution:

Step 1: Analyzing the shifts in supply.

A shift in the supply curve from S1 to S2 is usually caused by factors that make it easier or more efficient for producers to supply goods to the market.

Step 2: Analyzing the options.

- **(A) Increase in tax:** An increase in tax would reduce the supply and shift the supply curve to the left. - **(B) Improvements of technology:** This can increase supply by making production more efficient, shifting the supply curve to the right. - **(C) Rise in the price of inputs:** An increase in input prices would decrease the supply, shifting the supply curve to the left. - **(D) Increase in the number of producers:** This would increase the supply, shifting the curve to the right.

Step 3: Conclusion.

Therefore, the correct answer is (B) Improvements of technology, as technological advancements often lead to an increase in supply, shifting the supply curve to the right.

Final Answer: Improvements of technology.

Quick Tip

Improvements in technology generally lead to increased efficiency, which shifts the supply curve to the right, indicating an increase in supply.

(v). Statement 1: Income tax, GST, and Custom Duties are examples of Tax Revenues.

Statement 2: Excise and Forfeitures are also part of Tax Revenues.

(A) Both Statement 1 and 2 are true.

(B) Both Statement 1 and 2 are true, but Statement 2 is not the correct explanation of Statement 1.

(C) Statement 1 is true, but Statement 2 is false.

(D) Statement 1 is false, but Statement 2 is true.

Correct Answer: (A) Both Statement 1 and 2 are true.

Solution:

Step 1: Understanding tax revenues.

Tax revenues are generated by the government through various means, including income tax, GST, custom duties, excise, and forfeitures. These are all considered part of the overall revenue system for the government.

Step 2: Verifying the statements.

- **Statement 1:** Income tax, GST, and Custom duties are indeed examples of tax revenues. -

Statement 2: Excise and forfeitures are also forms of tax revenues and part of the government's fiscal system.

Step 3: Conclusion.

Therefore, both statements are true, and the correct answer is (A).

Final Answer: (A) Both Statement 1 and 2 are true.

Quick Tip

Tax revenues are critical for a government's financial stability, including direct taxes like income tax and indirect taxes like GST, along with excise duties and forfeitures.

(vi). Which of the following leads to a situation where people are unable to trade with each other?

- (A) Lack of Double Coincidence of Wants
- (B) Lack of Durability
- (C) Lack of Common Measure of Value
- (D) Problem of Storing Wealth

Correct Answer: (A) Lack of Double Coincidence of Wants

Solution:

The concept of double coincidence of wants refers to the situation where two parties have what the other wants. This is a major problem in barter systems as it is hard to find two people who want exactly what the other offers. Thus, the correct answer is (A).

Final Answer: Lack of Double Coincidence of Wants.

Quick Tip

In barter systems, the lack of double coincidence of wants makes trading difficult, as each party must want what the other has.

(vii). Someone is a trained nurse who offers services to a hospital. Once her duty hours end, she cannot carry forward her usual services to the next day.

- (A) Labour is mobile
- (B) Labour is perishable
- (C) Labour is not homogeneous
- (D) Labour can be separated from the labourer

Correct Answer: (B) Labour is perishable

Solution:

Labour is considered perishable as it cannot be stored or carried forward once it is not in use. In this case, the nurse's services cannot be carried over to the next day, which exemplifies the perishability of labour.

Final Answer: Labour is perishable.

Quick Tip

Labour is perishable, meaning it cannot be stored or used at a later time, which makes it different from other goods or services.

(viii). Assertion (A): Commercial banks accept various types of deposits to meet the needs of different customers.

Reason (R): Fixed deposits allow consumers to deposit money for a specific period and earn high interest, while current deposits do not help in earning interest but help in frequent transactions for businesses.

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

Solution:

Commercial banks provide different types of deposits to cater to the varied needs of customers. Fixed deposits offer high interest for a specific period, while current deposits are meant for daily transactions and do not earn interest. Both statements are true and the reason correctly explains the assertion.

Final Answer: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

Quick Tip

Commercial banks offer a variety of deposit options to cater to different financial needs: fixed deposits for higher interest, savings accounts for short-term savings, and current accounts for frequent transactions.

(ix). Assertion (A): Commercial banks accept various types of deposits to meet the needs of different customers.

Reason (R): Fixed deposits allow consumers to deposit money for a specific period and earn high interest, while current deposits do not help in earning interest but help in frequent transactions for businesses.

(A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

(B) Both Assertion (A) and Reason (R) are true, but Reason (R) is not the correct explanation of the Assertion (A).

(C) Assertion (A) is true, but Reason (R) is false.

(D) Assertion (A) is false, but Reason (R) is true.

Correct Answer: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

Solution:

Both the assertion and reason are true. The reason explains how commercial banks offer various deposit types like fixed and current accounts to meet customers' needs.

Final Answer: (A) Both Assertion (A) and Reason (R) are true and Reason (R) is the correct explanation of the Assertion (A).

Quick Tip

Commercial banks offer different types of deposits like fixed deposits for higher interest and current accounts for frequent transactions.

(x). Household and farming utility are considered as consumer goods. From which of the following pairs is considered as complementary goods?

- (A) Oats and Jam Rolls
- (B) Toothbrush and Toothpaste
- (C) Petrol cans and Electric cars
- (D) LPG and CNG

Correct Answer: (B) Toothbrush and Toothpaste

Solution:

Complementary goods are goods that are used together. The consumption of one good typically enhances the consumption of the other. In this case, a toothbrush is complementary to toothpaste because both are typically used together for oral hygiene.

- **(A) Oats and Jam Rolls:** Not complementary; oats and jam rolls are not typically consumed together in a complementary fashion.

- **(C) Petrol cans and Electric cars:** Not complementary; petrol is used for combustion engine vehicles, whereas electric cars use electricity.

- **(D) LPG and CNG:** Both are types of fuel, but they are not complementary in the way that toothpaste and toothbrush are.

Final Answer: (B) Toothbrush and Toothpaste.

Quick Tip

Complementary goods are goods that are consumed together, like a toothbrush and toothpaste, where the use of one is incomplete without the other.

(xi). Goods like fruit and vegetables are both described as examples of which type of market form?

- (A) Perfect competition
- (B) Monopoly
- (C) Oligopoly
- (D) Monopolistic competition

Correct Answer: (A) Perfect competition

Solution:

In a perfectly competitive market, there are many buyers and sellers, all products are homogeneous, and there are no barriers to entry. Fruits and vegetables are perfect examples of goods in a perfectly competitive market because there are many sellers, the products are similar across sellers, and consumers can easily switch from one seller to another.

- **(B) Monopoly:** A monopoly exists when a single seller controls the market for a good or service.

- **(C) Oligopoly:** Oligopoly refers to a market dominated by a small number of large firms.

- **(D) Monopolistic competition:** Monopolistic competition involves many firms offering differentiated products, but fruits and vegetables are typically not differentiated.

Final Answer: (A) Perfect competition.

Quick Tip

Perfect competition describes a market where many sellers offer identical products and there is free entry and exit in the market, such as fruits and vegetables.

(xii). State the relationship to the plan pair of rights and consumer the relevant pair.

- (A) Right to be informed - Information about products
- (B) Right to seek redress - Protection against harmful products
- (C) Right to consumer education - Awareness about environmental disposal
- (D) Right to seek compensation for defective goods and services - Legal recourse

Correct Answer: (D) Right to seek compensation for defective goods and services - Legal recourse

Solution:

Consumers have a legal right to seek compensation for defective goods and services. This right ensures that consumers can be compensated through legal recourse if products or services do not meet the agreed-upon standards or cause harm.

- **(A) Right to be informed:** This refers to consumers' right to be provided with all necessary information about a product or service.
- **(B) Right to seek redress:** This right allows consumers to seek compensation or corrective action when products or services fail to meet expectations.
- **(C) Right to consumer education:** This right refers to consumers being aware of their rights and responsibilities.

Final Answer: (D) Right to seek compensation for defective goods and services - Legal recourse.

Quick Tip

Consumers have the right to seek compensation for defective products and services through legal channels, ensuring consumer protection.

(xiii). During the time of inflation, the Central Bank will _____ in order to control the inflation.

- (A) Buy Government Securities
- (B) Decrease the Cash Reserve Ratio
- (C) Sell Government Securities
- (D) Increase the Statutory Liquidity Ratio

Correct Answer: (C) Sell Government Securities

Solution:

During inflationary periods, the Central Bank typically takes measures to reduce the money supply to control inflation. Selling government securities reduces the money supply in the economy by taking money out of circulation. This helps in controlling inflation.

- **(A) Buy Government Securities:** Buying government securities would inject more money into the economy, which is typically done during deflation, not inflation.
- **(B) Decrease the Cash Reserve Ratio:** Decreasing the Cash Reserve Ratio would make more money available for banks to lend, which could increase inflation.
- **(D) Increase the Statutory Liquidity Ratio:** Increasing the Statutory Liquidity Ratio would reduce the amount of money banks can lend, but selling government securities is a more direct measure to control inflation.

Final Answer: (C) Sell Government Securities.

Quick Tip

In times of inflation, central banks sell government securities to reduce the money supply and control inflationary pressures.

(xiv). Which of the following is NOT a cause of Cost Push Inflation?

- (A) Increased prices
- (B) Rise in population
- (C) Fluctuations in output and supply

(D) External factors

Correct Answer: (B) Rise in population

Solution:

Cost-push inflation occurs when the cost of production increases, leading to higher prices for goods and services. This can happen due to factors such as increased prices of raw materials (increased prices), fluctuations in output and supply, and external factors like an increase in oil prices. However, a rise in population does not directly cause cost-push inflation.

Final Answer: (B) Rise in population.

Quick Tip

Cost-push inflation is driven by increased production costs, while demand-pull inflation is driven by an increase in aggregate demand.

(xv). The Government of India borrows a large sum of money from international financial institutions to build highways and modernize railways. This situation is an example of:

- (A) Debt for fiscal purposes
- (B) Debt for productive purposes
- (C) Public revenue
- (D) Text debt

Correct Answer: (B) Debt for productive purposes

Solution:

When the government borrows money for investments in infrastructure projects like highways and railways, this is considered debt for productive purposes. These investments are expected to contribute to economic growth and development.

Final Answer: (B) Debt for productive purposes.

Quick Tip

Debt for productive purposes refers to borrowing for investments that can contribute to long-term economic growth, such as infrastructure projects.

(xvi). In which type of market do both buyers and sellers have accurate and complete information about market conditions?

- (A) Oligopoly
- (B) Monopolistic competition
- (C) Monopoly
- (D) Perfect competition

Correct Answer: (D) Perfect competition

Solution:

In a perfectly competitive market, there is perfect information available to both buyers and sellers. This means that all participants have access to the same information about prices, products, and market conditions, ensuring that they can make informed decisions.

- **(A) Oligopoly:** In an oligopoly, a small number of firms dominate the market, and information is not perfectly available to all participants.

- **(B) Monopolistic competition:** In monopolistic competition, firms sell differentiated products, and while there is some level of information, it is not perfect.

- **(C) Monopoly:** A monopoly exists when a single firm controls the market, and it typically has more information than consumers, leading to imperfect information.

- **(D) Perfect competition:** In perfect competition, all buyers and sellers have access to complete and accurate information, ensuring the most efficient market conditions.

Final Answer: (D) Perfect competition.

Quick Tip

In a perfectly competitive market, all participants have complete knowledge of prices and products, which ensures an efficient allocation of resources.

Section - B

2(A) Define the concept of consumer capitalism.

Solution:

Consumer Capitalism:

Consumer capitalism is an economic system where the primary driver of economic activity is the consumption of goods and services. In such a system, economic growth and the overall success of businesses are tied to the consumption patterns of the population. Consumerism becomes a dominant cultural force, where individuals are encouraged to spend money and acquire material goods, thereby driving profits for companies and expanding the economy. In consumer capitalism, businesses focus on producing goods and services that appeal to consumer desires and needs. The ideology underlying consumer capitalism often promotes continuous purchasing behavior, implying that personal success and social status are linked to the acquisition of goods. Advertising and marketing campaigns play a crucial role in shaping consumer desires, fueling the need to acquire more products, and perpetuating a cycle of consumption.

Consumer capitalism can lead to economic growth, but it can also contribute to social inequality, environmental degradation, and unsustainable resource use, as the demand for continuous production and consumption increases.

(B) “Risk bearing is the backbone of entrepreneurship.” Justify the statement.

Solution:

Risk Bearing in Entrepreneurship:

The statement “Risk bearing is the backbone of entrepreneurship” is grounded in the very essence of entrepreneurship. Entrepreneurs are individuals who initiate and run businesses, often with a vision of innovation and growth. However, unlike employees, they take on the responsibility of their business’s success or failure, which inherently involves assuming a significant level of risk.

Entrepreneurs face multiple types of risks: - Financial Risk: They often invest their own money or borrow funds to start and run the business. If the business fails, they risk losing their investment or incurring debt. - Market Risk: Entrepreneurs have to deal with market uncertainties, changing consumer preferences, economic shifts, and competition. - Operational Risk: Managing operations, employees, supply chains, and other business processes involves a risk of disruption or failure.

Despite these risks, entrepreneurs are motivated by the potential rewards: profits, business growth, and the satisfaction of realizing their ideas. The ability to assess, manage, and mitigate these risks effectively is what sets successful entrepreneurs apart from others. In fact, risk-taking leads to innovation, differentiation in the marketplace, and business expansion. Thus, risk bearing is not just a characteristic but a fundamental aspect of entrepreneurship, making it the backbone of any entrepreneurial venture.

(C) What is meant by the "Margin Requirement" on invested capital?

Solution:

Margin Requirement:

The margin requirement is the minimum amount of equity that an investor must provide when borrowing funds to trade in the financial markets. It represents the amount of the investor's own capital required to support the position they wish to take in the market.

Essentially, margin is the collateral required to open and maintain a leveraged position, where an investor borrows money from a broker to increase the potential return on their investment.

For example, when buying stocks or other securities, the margin requirement might be set at 50%. This means that an investor can borrow up to 50% of the total value of the position from the broker. If the investor wants to purchase

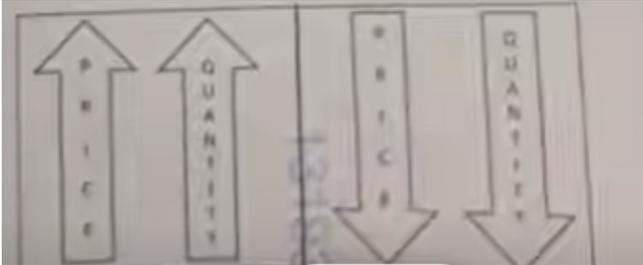
10,000 worth of stock, they would need to provide 5,000 of their own funds, and the remaining 5,000 can be borrowed from the broker.

Margin requirements serve several purposes: 1. Leverage: They allow investors to control larger positions with a smaller amount of their own capital, amplifying potential profits (or losses). 2. Risk Management: Margin protects brokers by ensuring that investors have enough capital to cover potential losses. It reduces the risk of default and helps manage

credit exposure.

The margin requirement may vary depending on the type of asset, the broker's policies, and the regulatory environment.

(D) Which concept is depicted in the growth image and explain the concept?



Solution:

Concept Depicted:

The concept depicted in the growth image is **Exponential Growth**. Exponential growth refers to the rapid increase in the size or quantity of something, where the growth rate is proportional to the current size or value. In other words, as the quantity increases, the rate of increase accelerates, leading to a sharp upward curve when plotted over time.

This type of growth is commonly seen in populations, investments, and certain technological advancements. For example, in a population with unlimited resources, the number of individuals will double at regular intervals, causing the population to grow exponentially. Similarly, investments that earn compound interest experience exponential growth because the interest earned also earns interest, compounding the growth.

Exponential growth is often unsustainable in real-world situations, as it assumes infinite resources, which are rarely available. Eventually, real-world factors such as resource limitations, environmental constraints, and other external forces will slow down the growth, leading to logistic growth, which represents a more realistic growth model.

3(i) Explain the meaning of Hyperinflation.

Solution:

Hyperinflation:

Hyperinflation refers to an extremely high and often accelerating rate of inflation, which causes the prices of goods and services to increase rapidly within a very short period of time. It usually occurs when a country's government increases the money supply at an excessive rate, but without a corresponding increase in the production of goods and services. This results in a significant decline in the value of the currency, causing the public to lose confidence in it. As a result, people may start using other currencies or barter to facilitate trade.

The primary causes of hyperinflation include excessive money printing by the central bank, political instability, and loss of confidence in the economic policies of the government. A classic example of hyperinflation occurred in Zimbabwe in the late 2000s, where the country experienced prices doubling almost every day. Similarly, Germany experienced hyperinflation in the 1920s, where the value of the mark dropped drastically, and people used wheelbarrows full of money to buy basic necessities.

Hyperinflation leads to devastating effects on an economy, such as:

- Loss of confidence in the national currency.
- A reduction in the purchasing power of individuals.
- Increased poverty and unemployment as people struggle to afford basic goods.
- Social unrest and political instability.

Quick Tip

Hyperinflation can severely disrupt an economy, leading to economic collapse, a shift to foreign currency use, and social instability. It is a condition that requires immediate and effective intervention from government authorities.

(ii) Outline two primary reasons why economists consider that the supply of land is fixed.

Solution:

Economists argue that the supply of land is fixed for the following primary reasons:

1. Land is a finite resource:

Land is a finite and physical resource. There is a limited amount of land available on Earth, and it cannot be produced or expanded. Even though technological advancements and urban planning can improve land usage (such as land reclamation), the actual physical quantity of land remains constant. The idea that land is fixed is fundamental to economics because it creates scarcity, making land a critical factor of production.

2. Inability to create new land:

Unlike other resources, such as labor or capital, land cannot be created or manufactured. While human ingenuity can modify or develop land for various uses, such as agriculture or construction, it cannot create more land. The concept of land being fixed stems from this inability to create additional land. This scarcity makes land highly valuable and a key component in economic discussions about land use, property, and resources.

Quick Tip

The fixed supply of land is an essential concept in economics, influencing land prices, resource allocation, and urban planning. Understanding land as a finite resource is key to addressing issues of scarcity and sustainability.

(iii) Define the term Regenerative Tax.

Solution:

Regenerative Tax:

A regenerative tax is a form of taxation where the revenue collected from the tax is used to regenerate or sustain the economy, promote environmental sustainability, or contribute to social welfare. This type of tax is intended to create a positive cycle by using the proceeds to fund initiatives that improve the overall well-being of society and the economy.

Regenerative taxes are designed to do more than just collect revenue. They aim to address long-term issues such as climate change, poverty, inequality, and economic stagnation by funding projects that regenerate natural resources or improve public services. For example, a carbon tax could be used to reduce greenhouse gas emissions, and the funds collected could be reinvested in renewable energy projects or environmental conservation.

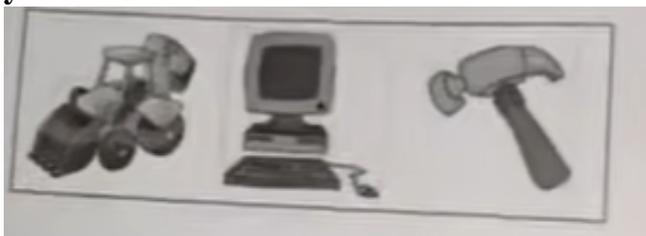
Examples of Regenerative Taxes:

1. Carbon tax: A tax on carbon emissions that aims to reduce environmental harm by incentivizing industries and individuals to reduce their carbon footprint. 2. Sin taxes (on tobacco, alcohol, etc.): These taxes discourage unhealthy behavior and raise funds for public health programs or rehabilitation services.

Quick Tip

Regenerative taxes aim not only to raise government revenue but also to create sustainable solutions for long-term economic and environmental challenges.

(iv) Observe the image and identify the type of capital it represents. Briefly explain your answer.



Solution:

Explanation:

(Unfortunately, without access to the actual image, I cannot provide a precise identification of the type of capital represented. However, in general, types of capital in economics include:

- **Human Capital:** Refers to the skills, knowledge, experience, and abilities possessed by individuals. It is an essential resource for economic growth and development.
- **Physical Capital:** Includes tangible assets like machinery, tools, and infrastructure that are used to produce goods and services.
- **Social Capital:** Refers to the networks, relationships, and trust within a society or community that facilitates cooperation and economic activities.
- **Financial Capital:** Includes money and other financial assets used to invest in business activities, infrastructure, or development projects.

If the image refers to any of these, it would fall into one of these categories. Generally,

images used in economics often depict physical capital or financial capital, as they represent assets used in production.

Quick Tip

Capital in economics is broadly categorized into human, physical, social, and financial types, each playing a distinct role in economic production and growth.

4(i). State one point of difference between fundal debt and unfunded debt.

Solution:

Funded Debt:

Funded debt refers to long-term debt that is supported by tangible assets or future revenues. In essence, it is backed by specific collateral, such as bonds or mortgages. Funded debt usually involves longer repayment periods, and the lender has security in case of non-payment. This type of debt is typically issued by governments or corporations.

Unfunded Debt:

Unfunded debt, on the other hand, is a type of debt that is not secured by assets. It is often short-term in nature and does not have collateral backing it. Examples of unfunded debt include short-term borrowings, loans from banks, and trade credit. Since there are no physical assets backing it, lenders generally charge higher interest rates as a risk premium.

(ii) The elasticity of demand tends to be higher in the long run than in the short run.

Solution:

Yes, I agree with the statement. The elasticity of demand refers to how responsive the quantity demanded is to a change in the price of a good or service. In the short run, consumers have limited time to adjust to price changes and may not be able to find immediate substitutes or adjust their behavior substantially. As a result, demand is less elastic in the short term.

However, in the long run, consumers have more time to adjust. They can explore substitutes, find alternative goods, and change their consumption patterns, making the demand for goods

more elastic. For example, if the price of gasoline increases, people may not immediately change their driving habits (in the short run). But in the long run, they may switch to more fuel-efficient cars, use public transportation, or even relocate to areas where they don't need to drive as much.

Thus, the long-run elasticity of demand tends to be greater because consumers have more flexibility and time to adapt to price changes.

(iii) Ravi deposits 50,000 in his savings account in a commercial bank. The bank loans a part of this money to give loans to another customer. This process is repeated with other deposits and borrowers.

Solution:

This situation describes how money creation works in a fractional reserve banking system. When Ravi deposits 50,000 into the bank, the bank doesn't keep the entire deposit. Instead, it is required to keep only a fraction of this amount as reserves (a requirement set by the central bank). The remaining amount, which is not held as reserves, is loaned out to other customers.

The borrower of this loan will likely deposit the loaned amount in another bank, and that bank will also keep a portion as reserves and lend out the rest. This process continues, with each new deposit enabling the creation of additional money in the form of loans. This is the basis of the multiplier effect, where the total money supply increases by a multiple of the original deposit.

For example, if the reserve requirement is 10%, then from Ravi's 50,000, the bank will keep 5,000 as reserves and lend out 45,000. The next bank receiving the 45,000 will keep 4,500 as reserves and lend out 40,500, and so on.

This process is crucial to the functioning of the economy because it allows the money supply to expand and facilitates economic growth through credit.

(iv) Identify whether Ravi's deposit is primary or derivative.

Solution:

Ravi's deposit is primary. In the banking system, a primary deposit is the initial deposit made by an individual (Ravi, in this case) into the bank. This is the first stage of money creation,

where the money is placed into the banking system.

A derivative deposit, on the other hand, is the money created as a result of the lending activities that follow the initial deposit. These are the deposits made by the borrowers who received loans from the bank.

Since Ravi is the original depositor and the first person to introduce the money into the system, his deposit is classified as a primary deposit.

(v) Give a reason for your choice.

Solution:

Ravi's deposit is considered primary because it is the original deposit that initiates the process of money creation. The bank loans a portion of this deposit to other customers, who then deposit it in other banks, creating derivative deposits. The primary deposit is the first step in this process, and all subsequent deposits are derived from the initial one.

5. (A) Land is one of the most important factors of production. In this context, explain the factors that affect the productivity of land.

Solution:

Factors Affecting the Productivity of Land:

The productivity of land depends on various factors, which include both natural and human-induced elements. Some of the key factors that affect land productivity are:

1. Soil Fertility:

The fertility of the soil is a key determinant of land productivity. Fertile soil contains the necessary nutrients that plants need to grow, such as nitrogen, phosphorus, and potassium. Soil fertility can be maintained or enhanced through the use of fertilizers, crop rotation, and other agricultural practices.

2. Climate:

The climate of a region, including temperature, rainfall, and seasonal variation, greatly affects land productivity. For instance, lands in regions with a moderate climate are more productive than those in areas with extreme temperatures or inadequate rainfall.

3. Irrigation:

Irrigation plays an important role in increasing land productivity, especially in areas with insufficient rainfall. Proper irrigation systems help provide consistent water supply to crops, ensuring better growth and higher yields.

4. Human Effort and Technology:

The use of modern farming techniques, machinery, and tools can increase the productivity of land. Technologies such as mechanized plowing, sowing, and harvesting improve the efficiency of agricultural operations. Moreover, skilled labor, knowledge of farming practices, and education in agriculture contribute to better land use.

5. Land Management:

Sustainable land management practices, such as soil conservation, proper land-use planning, and waste management, are crucial for maintaining long-term productivity. Deforestation, overgrazing, and unsustainable farming can lead to land degradation and a decrease in productivity.

(B) State any four differences between Commercial Banks and Central Bank.

Solution:

Differences between Commercial Banks and Central Bank:

1. Definition:

- **Commercial Banks:** Commercial banks are financial institutions that provide banking services to the general public, such as accepting deposits, granting loans, and offering various financial products.
- **Central Bank:** A central bank is a national bank that manages the currency, money supply, and interest rates. It is responsible for overseeing the monetary system of the country and implementing monetary policy.

2. Profit Orientation:

- **Commercial Banks:** Commercial banks are profit-driven institutions. They aim to generate profits by offering financial services to customers and charging interest on loans and services.
- **Central Bank:** A central bank does not operate for profit. Its primary goal is to ensure economic stability, control inflation, regulate the banking system, and maintain the country's monetary policy.

3. Monetary Policy Role:

- **Commercial Banks:** Commercial banks do not directly control monetary policy. They operate under the regulations set by the central bank and help in the implementation of policies.
- **Central Bank:** The central bank is responsible for formulating and implementing the monetary policy. It controls the money supply, sets interest rates, and manages inflation to stabilize the economy.

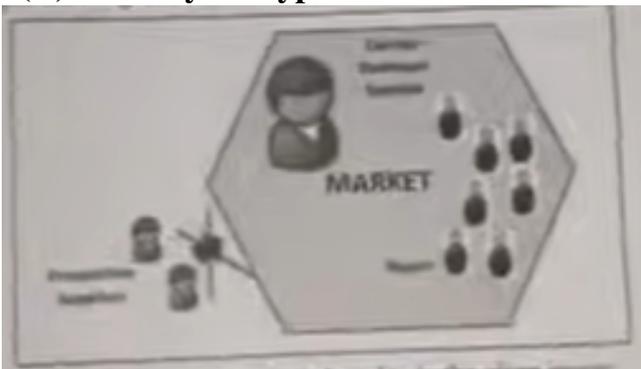
4. Regulatory Functions:

- **Commercial Banks:** Commercial banks are regulated by the central bank and other regulatory bodies to ensure they adhere to financial rules and protect depositors' interests.
- **Central Bank:** The central bank regulates the overall banking system and ensures that commercial banks operate efficiently and safely. It also acts as the lender of last resort for commercial banks during financial crises.

Quick Tip

Remember: Commercial banks focus on providing financial services to individuals and businesses, while central banks manage a country's monetary system and regulate the banking industry.

6(A). Identify the type of market referred to in the given image.



Solution:

The type of market referred to in the image is a Monopoly market. In this market, a single seller (or producer) controls the entire supply of a particular good or service, while

consumers (demanders) are depicted as the entities that receive the goods. The monopoly has no competition in the market, and the seller has a significant influence on price and quantity.

(B) Explain any three characteristics of the classified market.

Solution:

Step 1: Single Seller.

In a monopoly market, there is only one seller who controls the production and supply of the product. The seller is the sole provider in the market and faces no direct competition.

Step 2: Barriers to Entry.

There are high barriers to entry in a monopoly. New firms cannot easily enter the market due to factors like high start-up costs, control over essential resources, or government regulations, which protect the monopoly from competition.

Step 3: Price Maker.

The seller in a monopoly market is a price maker rather than a price taker. The monopolist has the power to set the price of the product, as there are no substitutes available. This control allows the monopolist to influence demand by adjusting the price.

(C) State and explain any five characteristics of Capital.

Solution:

Step 1: Durability.

Capital is durable, meaning it does not wear out quickly and can be used repeatedly over a long period. For example, machinery, buildings, and tools are types of capital that provide value over time.

Step 2: Productivity.

Capital enhances productivity by enabling the production of goods and services more efficiently. It increases the capacity of labor and resources, improving output and reducing the cost of production.

Step 3: Transferability.

Capital is transferable, meaning it can be moved from one location to another or from one form to another (e.g., cash converted into machinery or investments). This flexibility allows businesses to adjust according to their needs.

Step 4: Man-Made.

Capital is man-made or created by human effort. It includes physical assets like machines, buildings, and equipment, as well as financial capital like funds or investments used to produce goods.

Step 5: Risk.

Capital involves risk since it can lose value due to various factors such as technological obsolescence, market fluctuations, or poor management. Entrepreneurs and firms must manage the risks associated with their capital to maintain profitability.

Quick Tip

Capital is essential for production and economic growth, offering durability, productivity, and flexibility but also posing risks that must be managed effectively.

7(i). Define the barter system of exchange.

Solution:

Barter System of Exchange:

The barter system is one of the oldest methods of exchange, where goods and services are directly exchanged for other goods and services without the use of money. In a barter system, two parties agree on the value of what they have and what they need, and they exchange these items or services. For example, a farmer may exchange a basket of apples for a pair of shoes from a cobbler. The barter system was prevalent in ancient economies before the invention of money.

Limitations of the Barter System:

1. **Double Coincidence of Wants:** The most significant limitation of the barter system is the need for a "double coincidence of wants." This means that both parties in a trade must have something the other wants. For example, if a farmer wants shoes, he must find a cobbler who also wants apples. This makes it difficult to conduct trade, especially in large economies. 2.

Lack of Divisibility: Some goods cannot be easily divided into smaller, equivalent parts.

For example, exchanging a cow for a small amount of grain is difficult, as the cow cannot be

split into smaller units without losing value. 3. **Lack of Standard Measure of Value:** In the barter system, there is no standard unit to measure the value of goods and services. This makes it difficult to determine fair exchange rates, leading to inequality and dissatisfaction in the trade.

Transition to Money:

The limitations of the barter system led to the development of money, which acted as a more efficient and flexible medium of exchange. Money solved the double coincidence of wants by providing a universally accepted standard of value that could be easily divided, carried, and used for trade.

Quick Tip

In the barter system, both parties have to agree on the value of the goods and services being exchanged, which can be problematic without a common standard of measurement.

(ii) List the last three stages in the evolution of money.

Solution:

The evolution of money has progressed through several stages, each addressing the limitations of the previous stage. The last three stages of this evolution are:

1. Commodity Money:

Commodity money refers to items that have intrinsic value and were used as a medium of exchange. These items included precious metals like gold and silver, as well as other goods like livestock, grains, and even salt. The key characteristic of commodity money was that its value was inherent in the item itself. Gold, for example, was valuable due to its rarity, durability, and other physical properties, making it a widely accepted medium of exchange. The primary advantage of commodity money was that it had a tangible value, making it trusted. However, the system had its challenges, such as the need to transport large amounts of valuable goods and the difficulty of dividing goods into smaller units. Over time, commodity money became impractical as trade expanded, leading to the next stage in the

evolution of money.

2. Metallic Money:

As economies grew and the limitations of commodity money became apparent, metallic money emerged as the next stage in the evolution of money. This involved the use of metal coins, usually made from gold, silver, or copper, as a medium of exchange. Coins were stamped with standardized symbols, such as the image of the ruler or government, to guarantee their weight and value.

The use of metallic money addressed many issues of commodity money, such as divisibility and transportability. It was easier to carry metal coins, and they could be divided into smaller units to facilitate trade in smaller quantities. The introduction of metallic money also enabled governments to establish minting systems and establish fixed values for different coins, increasing trust in the monetary system.

3. Paper Money:

The final significant step in the evolution of money was the creation of paper money. Paper money initially emerged as a receipt or promissory note for precious metals stored in banks. Over time, it became widely accepted as a form of currency due to its convenience and ease of handling. Unlike coins, which are limited by the amount of metal available, paper money could be printed in larger quantities to match the growing needs of the economy.

The introduction of paper money marked a shift from commodity-based currency to fiat currency, where the value of money is not backed by physical goods (like gold or silver) but rather by the authority of the issuing government. The use of paper money allowed for more flexible monetary systems and greater efficiency in trade, as it could be easily transported and exchanged. Today, most countries use paper money, and in many cases, digital currency and electronic money have become the norm.

Quick Tip

The evolution of money from commodity money to paper money and digital currency reflects the need for a more convenient, efficient, and scalable system of exchange.

8(i). What is Public Expenditure?

Solution:**Definition:**

Public expenditure refers to the spending by the government or public authorities on goods, services, and welfare programs designed to benefit the public. It involves the use of public funds to maintain and improve the country's infrastructure, security, social services, and other public goods. Public expenditure is an essential part of fiscal policy and economic management and is funded primarily through taxes, borrowings, and other government revenues.

Types of Public Expenditure:

Public expenditure can be categorized into: 1. Capital Expenditure: This is spending on long-term investments like infrastructure projects (roads, schools, hospitals, etc.), machinery, and public buildings. It aims to improve or expand the productive capacity of the economy. 2. Revenue Expenditure: This is the spending on goods and services that are consumed in the current year and do not lead to the creation of long-term assets. Examples include wages, pensions, subsidies, and interest payments on government debt. 3. Transfer Payments: Payments made by the government to individuals or groups, such as unemployment benefits, social security, and welfare benefits, which are not made in exchange for goods and services. Public expenditure plays a crucial role in the economy by promoting economic stability, reducing inequalities, providing essential services, and stimulating growth. It can be used to correct market failures and achieve social and economic objectives.

(ii) State and explain any three types of direct tax.**Solution:****Step 1: Income Tax.**

Income tax is a tax levied on the income of individuals, businesses, and other entities. It is one of the most important sources of government revenue. Income tax is generally progressive, meaning that the more an individual earns, the higher the tax rate they are required to pay. It is calculated as a percentage of an individual or entity's total income. Income tax may include exemptions or deductions based on the type of income, number of dependents, and other factors.

Step 2: Wealth Tax.

Wealth tax is a tax imposed on the total value of a person's assets. This includes their properties, savings, investments, and other wealth accumulated over time. Wealth tax is typically imposed on individuals who hold wealth above a certain threshold, and it aims to reduce economic disparity by taxing the rich more. It is a form of direct tax because it is assessed on the individual based on their assets. However, in many countries, wealth tax has been reduced or abolished due to its complexity in valuation.

Step 3: Corporate Tax.

Corporate tax is a direct tax imposed on the profits of companies or corporations. It is calculated as a percentage of the company's net income, after accounting for allowable expenses such as wages, cost of goods sold, and depreciation. Corporate tax is a key revenue source for governments, and its rates vary depending on the country and the size of the company. Larger companies or multinational corporations typically pay a higher percentage of their profits in corporate taxes. Corporate taxes play a role in redistributing income and funding public services.

(iii) How are consumers exploited by retailers?

Solution:

Retailers can exploit consumers in various ways, taking advantage of their lack of information or purchasing power. The following are some common methods:

Step 1: High Prices.

Retailers may increase the prices of products to higher than their actual value, exploiting consumers' willingness to pay. This may happen due to monopolistic practices, where there is little competition, or by using emotional pricing, where retailers create the illusion of value by marking up products. Consumers, unable to find alternatives or unaware of market prices, are forced to buy at inflated prices.

Step 2: Bait and Switch Tactics.

Retailers often advertise a product at an attractively low price to bring in customers, but when the customer attempts to purchase it, the product is unavailable or out of stock. The retailer then tries to "switch" the customer to a more expensive or less favorable product. This deceptive practice is known as "bait and switch" and exploits consumers' expectations and trust.

Step 3: Misleading Advertising.

Retailers often use misleading advertising to lure consumers into buying products. For example, they may advertise a product as having certain qualities or benefits that it doesn't possess, or they might use exaggerated claims. This exploitation of consumer trust leads to dissatisfaction and wasted money. False claims about the effectiveness of a product or the benefits of a service are forms of fraud that are not always detected by consumers in time.

Step 4: False Scarcity.

Retailers may use tactics like "limited-time offers" or "only a few items left in stock" to create a false sense of urgency. Consumers, fearing they might miss out on a good deal, often make impulsive purchases without evaluating the product thoroughly. This psychological manipulation takes advantage of consumer behavior and leads to unnecessary spending.

Quick Tip

Consumers should be aware of high prices, deceptive advertising, and manipulative sales tactics to avoid exploitation by retailers.

9(i). Define the term demand.

Solution:

Demand:

In economics, demand refers to the quantity of a good or service that consumers are willing and able to purchase at different prices during a given period of time. The law of demand states that, all other factors being equal, as the price of a good increases, the quantity demanded decreases, and vice versa. This relationship between price and quantity demanded is typically illustrated through a demand curve on a graph.

(ii) Complete the following market demand schedule.

Price of goods (₹ per kg)	Demand by Consumer A (kg per month)	Demand by Consumer B (kg per month)	Demand by Consumer C (kg per month)	Market demand (kg per month)
10	2	6	8	I. _____
8	4	II. _____	9	20
6	6	9	III. _____	27

Solution:

We are given the demand schedule for three consumers (A, B, and C) for a product at various prices, and we need to calculate the market demand, which is the sum of the individual demands at each price level. The market demand schedule is calculated as follows:

$$\text{Market Demand} = \text{Demand by Consumer A} + \text{Demand by Consumer B} + \text{Demand by Consumer C}$$

The table below shows the completed market demand schedule:

Price (Rs/kg)	A (kg/month)	B (kg/month)	C (kg/month)	Market Demand (kg/month)
10	2	6	8	16
8	4	9	10	23
6	6	11	12	29
4	8	14	15	37

For each price level, we sum the individual demands to get the market demand. For example, at a price of Rs 10 per kg, the total market demand is $2 + 6 + 8 = 16$ kg per month.

Quick Tip

Market demand is the total quantity of a good or service demanded by all consumers in the market at various prices. It's calculated by summing up individual demands at each price.

10(A). Define Public Debt.

Solution:

Definition:

Public debt refers to the total amount of money the government borrows to meet its expenditure needs that exceed its revenue. It consists of loans taken from domestic or foreign lenders and includes both external and internal debt. The government issues bonds or borrows funds from financial institutions, individuals, or other countries. Public debt must be repaid over time with interest, and the government uses various sources of revenue, like taxes or state-owned assets, to service this debt.

(B) Explain any three causes of growth of Public Expenditure.

Solution:

Step 1: Population Growth.

With increasing population, the demand for public services such as healthcare, education, and housing also grows. Governments need to allocate more funds to meet the needs of a larger population, leading to an increase in public expenditure. More funds are required to maintain infrastructure and provide for the welfare of the growing population.

Step 2: Economic Development.

As the economy grows, the government has to invest in new infrastructure, industries, and technologies. Public expenditure increases to finance large-scale infrastructure projects, industrial development, and technological advancements to support economic growth. Additionally, investments in research, education, and human capital contribute to higher government spending.

Step 3: Welfare Programs.

Governments are often tasked with maintaining social welfare programs like unemployment benefits, pension systems, and healthcare. As these programs expand to accommodate more citizens or cover more services, public expenditure rises. The government also has to spend more on poverty alleviation, unemployment relief, and other social services to ensure stability and reduce income inequality.

Quick Tip

Public expenditure increases due to rising population, economic development needs, and the expansion of welfare programs to support citizens' well-being.

11(A). Identify the type of inflation described in the above extract.

Solution:

Type of Inflation:

The type of inflation described in the extract is **Demand-pull Inflation**. Demand-pull inflation occurs when the aggregate demand (AD) for goods and services in an economy exceeds the aggregate supply (AS). This imbalance between demand and supply leads to upward pressure on prices, as producers cannot keep up with the growing demand.

In the extract, it is mentioned that the economy is experiencing rapid growth and that consumers' disposable incomes are rising. As consumers become more willing and able to spend on goods and services, the overall demand in the economy increases. However, if the supply of these goods and services is limited (due to factors such as production capacity or resource constraints), this excess demand pushes prices higher, resulting in inflation.

Thus, the inflation described in the extract is driven by an increase in demand for goods and services, which outpaces the economy's ability to supply them.

(B) Briefly explain the nature of the inflation mentioned in (A).

Solution:

Nature of Demand-pull Inflation:

Demand-pull inflation is a type of inflation that occurs when there is an increase in the overall demand for goods and services in an economy, but the supply of these goods and services cannot increase proportionally. This imbalance causes an upward pressure on prices. The key characteristic of demand-pull inflation is that it is driven by an increase in aggregate demand (AD). When disposable incomes rise, consumers are more willing and able to purchase more goods and services. This increased consumer spending, along with other

factors such as government expenditure or business investment, stimulates the demand side of the economy. However, if the economy is already operating at or near full capacity, producers cannot easily increase the supply of goods and services to meet this higher demand. As a result, prices rise, leading to inflation.

This type of inflation is generally associated with periods of economic expansion or rapid growth, when demand for goods and services increases at a faster rate than the economy's capacity to produce them.

Quick Tip

Demand-pull inflation is often seen in growing economies when there is increased consumer and business spending, but the economy's capacity to produce is limited, leading to rising prices.

(C) State and explain any three causes of the type of inflation described above.

Solution:

Causes of Demand-pull Inflation:

There are several causes of demand-pull inflation, which arise from an increase in aggregate demand (AD) in the economy. Some of the key causes are:

1. Increase in Consumer Spending:

When consumers experience an increase in disposable income, they tend to spend more on goods and services. This increased consumer spending raises the overall demand in the economy, and if the supply of goods and services cannot keep up with the demand, prices begin to rise. Factors that contribute to increased consumer spending include higher wages, tax cuts, or easier access to credit. As consumers are more willing to spend, the demand for goods and services increases, leading to demand-pull inflation.

2. Increased Government Spending:

When the government increases its expenditure, such as through infrastructure projects, defense spending, or public welfare programs, this can boost the demand for goods and services. This is particularly the case when government spending is directed toward sectors

where the supply is limited. For example, an increase in government spending on infrastructure can lead to higher demand for construction materials, labor, and machinery. If the economy is already operating near full capacity, this increased government demand can contribute to inflation.

3. Growth in Business Investment:

When businesses invest in new projects, expand their operations, or increase production, they create demand for raw materials, labor, and capital. This can lead to an increase in overall demand in the economy. However, if the supply of these inputs is limited or cannot increase quickly enough, businesses face higher costs, which are passed on to consumers in the form of higher prices. For instance, a business might expand its factory or build a new plant, which leads to an increase in demand for machinery, labor, and materials.

Quick Tip

Demand-pull inflation occurs when demand increases due to higher consumer spending, government expenditure, or business investment, but the supply of goods and services can't keep up with the rising demand.